

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T3-1-10)

The United States Postal Service hereby provides its responses to the following interrogatories of Newspaper Association of America: NAA/USPS-T3-10, filed on October 17, 2002.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 28, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T3-1: Please confirm that your testimony does not attempt to account for the costs incurred by Postal Service executives and other personnel in planning and negotiating the NSA with Capital One. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed.

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NAA/USPS-T3-2: Please provide an estimate of the costs incurred by Postal Service executives and other personnel in planning and negotiating the NSA with Capital One. If you cannot confirm, please explain why not.

RESPONSE:

No such estimate exists, and it does not appear feasible to attempt to develop any such estimate for several reasons. First, in accord with practice applicable to similar tasks undertaken on a continuing basis, there was no comprehensive measure taken of the time spent planning and negotiating the NSA. Second, the broad nature of the functions performed by postal executives suggests that, in general, the costs associated with them are fundamentally common fixed costs and institutional in nature. See, for example, the Postal Service's response in Docket No. R2001-1 to UPS/USPS-13 (Tr. 10C/3622) and UPS/USPS-T30-8 (Tr. 10C/3668-71). Lastly, in addition to these broader considerations, as the first NSA presented to the Commission for consideration, there would be additional problems in developing such an estimate because much of the time spent planning and discussing was more focused on the new concept of NSAs in general, as opposed to the Capital One filing in particular.

Note, however, that the lack of any such estimate in this case does not cause treatment of the costs in question that is any different from the treatment of functionally similar preparation costs that exist with respect to every Commission filing by the Postal Service be it small or large.

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NAA/USPS-T3-3: Did you perform any calculations of net institutional cost contributions taking into account the alternative discount structure in which discounts would begin at 1.025 billion pieces? If so, please provide the calculations. If not, please explain why not.

RESPONSE:

No. I was not asked to evaluate the alternative discount structure.

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NAA/USPS-T3-4: Postal Service witness Wilson estimates that 85% of ACS mail will receive electronic notification. What would happen to the 15% of Capital One mail that does not receive electronic notification? How are the associated costs calculated and how do they affect the \$8.2 million institutional contribution?

RESPONSE:

The remaining 15 percent of the pieces will be handled exactly as they are now.

Since there is no change in operations for those 15 percent, there are no cost savings included from those pieces in the \$8.2 million dollar contribution increase.

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NAA/USPS-T3-5: Have you included the costs to the Postal Service of litigating this case in your estimated costs of the NSA?

RESPONSE:

No. Even in a historical context, these costs would be of the same nature as the costs discussed in response to NAA/USPS-T3-2, and no estimates of such costs would be available for the reasons discussed in that response. Moreover, in the instance of litigation costs, it would have been necessary to move beyond history and into projections of the future. Such projections would have been influenced by factors such as whether the case would settle, or the extent of hearings that might be required, and the Postal Service would have had no reliable basis on which to anticipate such factors at the time of filing. These considerations further precluded the possibility of attempting to incorporate litigation costs into the filing.

Note once again, however, that the inability to incorporate litigation costs into this filing results in no different treatment than that afforded litigation costs in all other Postal Service filings with the Commission.

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NAA/USPS-T3-6: Are the costs to the Postal Service of litigating this case attributable to First Class Mail generally?

RESPONSE:

Not to my knowledge. Please see the responses to NAA/USPS-T3-2 and 5.

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NAA/USPS-T3-7: Please confirm that your calculations of the net contribution effect of the NSA does not include any possible loss of contribution from a reduction by Capital One in the amount of Standard mail solicitations sent during the term of the NSA. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed. Please also refer to witness Jean's response to OCA/COS-T1-6

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NAA/USPS-T3-8: Please refer to page 4, lines 11 to 14 of your testimony. Are

you assuming that the "new" mail volume does not, in the absence of the volume discounts due to the NSA, consist of mail that otherwise would have been mailed at Standard mail rates? If your response is negative, please explain why not.

RESPONSE:

I am assuming that the "new" volume is new and not redirected from another class of mail.

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NAA/USPS-T3-9: Please confirm that you estimate the net contribution from "new volume" under the NSA to be \$1.8 million in the first year. If you cannot confirm, please explain why not.

RESPONSE:

The calculation in my testimony uses the bottom of the volume response to discount range provided by Capital One. That calculation does provide a new volume contribution estimate of \$1.8 million.

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NAA/USPS-T3-10: Please confirm that you estimate the discount leakage from mail volume that Capital One would mail even in the absence of the rate discounts as \$6.7 million. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed - though this element should not be viewed in isolation.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

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